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Macroeconomic policy questions: external debt crisis and development

Draft resolution submitted by the Vice-Chairman of the Committee, Mr. Selwin Hart (Barbados), on the basis of informal consultations held on draft resolution A/C.2/60/L.3

External debt crisis and development

The General Assembly,

Recalling its resolutions 58/203 of 23 December 2003 and 59/223 of 22 December 2004 on the external debt crisis and development,

Reaffirming the Monterrey Consensus of the International Conference on Financing for Development,[1] which recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,

Recalling the United Nations Millennium Declaration adopted on 8 September 2000,[2]

Recalling also the 2005 World Summit Outcome,[3]

Recalling further its resolution 57/270 B of 23 June 2003,

Welcoming that total debt service for developing countries decreased in the period from 2003 to 2004, leading to improvements in several traditional debt indicators,[4] but concerned that some low-income and middle-income developing countries that are not eligible for debt relief under the Heavily Indebted Poor Countries Initiative are still facing difficulties in finding a durable solution in meeting their external debt-servicing obligations, which could adversely affect their sustainable development,

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[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[2] See resolution 55/2.

[3] Resolution 60/1.

[4] A/60/139, paras. 2 and 6.

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Welcoming also that the Heavily Indebted Poor Countries Initiative has enabled heavily indebted poor countries to markedly increase their expenditures on health, education and other social services consistent with national priorities and development plans, emphasizing in this regard the need to ensure that debt relief does not replace other sources of financing, stressing the importance of addressing the challenges of those heavily indebted poor countries that are facing difficulties in reaching the completion point under the Initiative, and expressing concern that some heavily indebted poor countries continue to face substantial debt burdens and need to avoid rebuilding unsustainable debt burdens after reaching the completion point under the Initiative,

Welcoming further the recent proposal of the Group of Eight, as endorsed by the Bretton Woods institutions at their 2005 annual meetings, to cancel 100 per cent of the outstanding debt of eligible heavily indebted poor countries owed to the International Monetary Fund, the International Development Association and the African Development Fund and to provide additional resources to ensure that the financing capacity of the international financial institutions is not reduced,

Emphasizing that debt sustainability is essential for underpinning growth and underlining the importance of debt sustainability to the efforts to achieve national development goals, including the Millennium Development Goals, and that countries should direct those resources freed through debt relief, in particular through debt reduction and cancellation, towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

Convinced that enhanced market access for goods and services of export interest to developing countries contributes significantly to debt sustainability in developing countries,

1. *Takes note* of the report of the Secretary-General;[1]

2. *Emphasizes* the special importance of a timely, effective, comprehensive and durable solution to the debt problems of developing countries, since debt financing and relief can be an important source of capital for economic growth and development;

3. *Stresses* the importance of promoting responsible borrowing and lending;

4. *Emphasizes* that creditors and debtors must share responsibility for preventing unsustainable debt situations;

5. *Underlines* that the long-term sustainability of debt depends, inter alia, on the economic growth, mobilization of domestic resources and export prospects of debtor countries and, hence, on the creation of an enabling environment conducive to development, progress in following sound macroeconomic policies, transparent and effective regulatory frameworks and success in overcoming structural development problems;

6. *Reiterates* its call upon developed countries, as expressed in the Millennium Declaration, to complete the enhanced programme of debt relief for the Heavily Indebted Poor Countries Initiative and to ensure that it is fully financed,

[1] A/60/139

and in this regard underscores the importance of full creditor participation in contributing their share to implementing the enhanced Heavily Indebted Poor Countries Initiative;

7. *Recognizes and encourages* the efforts of the heavily indebted poor countries, calls upon them to continue to improve their domestic policies and economic management, inter alia, through poverty reduction strategies, and to create a domestic environment conducive to private-sector development, economic growth and poverty reduction, including a stable macroeconomic framework, transparent and accountable systems of public finance, a sound business climate and a predictable investment climate, and in this regard invites all creditors, both private and public, to encourage those efforts, for example, through further participation in the delivery of debt relief in the framework of the enhanced Heavily Indebted Poor Countries Initiative and continued provision of adequate and sufficiently concessional financing by international financing institutions and the donor community;

8. *Stresses* that debt relief can play a key role in liberating resources that should be directed towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals, and in this regard urges countries to direct those resources freed through debt relief, in particular through debt cancellation and reduction, towards these objectives;

9. *Reiterates* that debt sustainability depends on a confluence of many factors at the international and national levels, emphasizes that country-specific circumstances and the impact of external shocks should be taken into account in debt sustainability analyses, underscores the fact that no single indicator should be used to make definitive judgements about debt sustainability, and in this regard, while acknowledging the need to use transparent and comparable indicators, invites the International Monetary Fund and the World Bank, in their assessment of debt sustainability, to take into account fundamental changes caused by, inter alia, natural disasters, conflicts, changes in global growth prospects or in the terms of trade, especially for commodity dependent developing countries, and to continue to provide information on this issue using existing cooperation forums, including those involving Member States;

10. *Reiterates also* its invitation to the World Bank and the International Monetary Fund to keep the overall implications of the debt sustainability framework for low-income countries under review, calls for transparency in the computation of the country policy and institutional assessments, and welcomes the intention to disclose the country performance ratings of the International Development Association that form part of the framework;

11. *Welcomes* the Gleneagles proposal by the Group of 8, as endorsed by the Bretton Woods institutions at their 2005 annual meetings, to cancel 100 per cent of the debt owed by heavily indebted poor countries to the International Monetary Fund, the International Development Association and the African Development Fund and their emphasis that it should be expeditiously implemented by the concerned multilateral financial institutions, also welcomes their efforts to proceed with steps to ensure all necessary arrangements to implement the proposal and to ensure that the funds for this process be fully additional to existing aid commitments

to the International Development Association and the African Development Fund, looks forward to the remaining heavily indebted poor countries with unsustainable debt burdens, including countries that may enter the Heavily Indebted Poor Countries Initiative process based on their debt burdens at the end of 2004, becoming eligible for such treatment as they reach the completion point, emphasizes that the key element of the proposal is that debt relief will be fully financed by donors to ensure that the financing capacity of international financial institutions is not reduced, and in particular that the financial integrity and capacity of the International Development Association and the African Development Bank to assist developing countries in the future is maintained, and also emphasizes the importance of eligible countries maintaining sound economic policies and performance;

12. *Notes with concern* that, in spite of the progress achieved, some countries that have reached the completion point of the Heavily Indebted Poor Countries Initiative have not been able to achieve lasting debt sustainability, stresses the importance of promoting responsible borrowing and lending and the need to help these countries to manage their borrowing and to avoid a build-up of unsustainable debt, including through the use of grants, and in this regard welcomes the ongoing work by the International Monetary Fund and the World Bank to develop a forward-looking debt sustainability framework for heavily indebted poor countries and low-income countries;

13. *Welcomes* continued flexibility with regard to the application of eligibility criteria for the enhanced Heavily Indebted Poor Countries Initiative, in particular for low-income developing countries emerging from conflicts and/or affected by natural disasters, and on the computational procedures and assumptions underlying debt sustainability analysis, and in this regard takes note of the work on identifying low-income countries with unsustainable debt as of the end of 2004, with a view to finalization, by early 2006, of the list of countries potentially eligible for assistance under the Heavily Indebted Poor Countries Initiative;

14. *Emphasizes* that the Evian approach of the Paris Club, decided upon by creditors in October 2003, deals with the bilateral debt of non-heavily indebted poor countries and low- and middle-income countries, taking into account not only the financing gaps but also the medium-term debt sustainability of these countries, and welcomes the fact that its objective is to tailor debt restructuring to the financial needs of the country concerned and to ensure long-lasting debt sustainability for countries that have adopted policies that will secure an exit from Paris Club debt reschedulings;

15. *Calls upon* creditor countries, in this regard, to continue to ensure that a tailored response to debt restructuring is granted only in a case of imminent default and is not considered by debtor countries as an alternative to more expensive sources of finance, and takes into account country-specific circumstances, financial vulnerabilities and the objective of enhancing long-lasting debt sustainability, while emphasizing that creditors and debtors must share responsibility for preventing and resolving unsustainable debt situations in a timely and efficient manner;

16. *Acknowledges* the ongoing work towards a more comprehensive approach to sovereign debt restructuring, supports the increasing inclusion of collective action clauses in international bond issuing, takes note of the work on issues related to international arbitration and mediation mechanisms, and welcomes

the efforts by borrowing countries and private-sector creditors to broaden the consensus on the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets, which could contribute to strengthening crisis prevention and enhancing predictability of crisis management, bearing in mind the need not to preclude emergency financing in times of crisis, to promote fair burden-sharing and to minimize moral hazard;

17. *Stresses* the need to find a solution for the debt problems of low- and middle-income developing countries with unsustainable debt burdens that are not eligible for assistance under the Heavily Indebted Poor Countries Initiative, and in this regard invites creditors and debtors to continue to use, where appropriate and on a case-by-case basis, mechanisms such as debt swaps for alleviating their debt burden, and also stresses that this should be achieved in a fashion that does not detract from official development assistance resources, while maintaining the financial integrity of the multilateral financial institutions;

18. *Takes note* of the recent discussions and assessment by the Paris Club of the proposal for "Debt for Equity in Millennium Development Goal Projects";

19. *Invites* donor countries, taking into account country-specific debt sustainability analyses, to continue their efforts to increase bilateral grants to developing countries, which could contribute to debt sustainability in the medium to long term, and recognizes the need for countries to be able to invest, inter alia, in health and education while maintaining debt sustainability;

20. *Welcomes* the efforts of the international community to provide flexibility, and stresses the need to continue those efforts in helping post-conflict developing countries, especially those that are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

21. *Welcomes also* the efforts by creditors to provide flexibility to developing countries affected by natural disasters on a case-by-case basis so as to allow them to address their debt concerns;

22. *Welcomes further* the efforts of, and further calls upon, the international community to support institutional capacity-building in developing countries and countries with economies in transition for the management of financial assets and liabilities and to enhance sustainable debt management as an integral part of national development strategies;

23. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and other relevant multilateral financial institutions, to continue cooperation in respect of capacity-building activities in developing countries in the area of debt management;

24. *Calls upon* all Member States and the United Nations system, and invites the Bretton Woods institutions as well as the private sector, to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those relating to the question of the external debt problems of developing countries;

25. *Takes note* of the contribution provided by the multi-stakeholder dialogues on sovereign debt organized by the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat;

26. *Requests* the Secretary-General to submit to the General Assembly at its sixty-first session a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries;

27. *Decides* to include in the provisional agenda of its sixty-first session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "External debt crisis and development".